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C O N F I D E N T I A L SECTION 01 OF 02 SANAA 003470

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FOR NEA A/S WELCH AND DAS CHENEY FROM AMBASSADOR KRAJESKI

E.O. 12958: DECL: 12/12/2015

TAGS: [PREL](#) [PTER](#) [EAI](#) [D](#) [MASS](#) [YM](#) [COUNTER TERRORISM](#)

SUBJECT: RESTORING ESF FUNDS IS A PRIORITY FOR THE GWOT IN YEMEN

Classified By: AMBASSADOR THOMAS C. KRAJESKI, FOR REASONS 1.4 (B) AND (D).

1. (C) SUMMARY: If current budget allocations hold, Yemen will lose all but its military assistance funding for FY06. Economic Support Funds (ESF) have been reduced to zero, and Yemen's participation in the Millennium Challenge Account (MCA) Threshold Program was suspended. In addition, Yemen will likely not receive USDA monetized food assistance this fiscal year. While several of these funding cuts -- such as MCA and USDA -- are consequences of the Yemenis' own poor governance, the removal of ESF funds is due to our own budget difficulties. As tight as USG funds may be, we believe that eliminating ESF support at this crucial time for Yemen could seriously threaten security, and could increase the chances that we will need to make a much larger investment in the near future to stabilize what could become a failed state. In that context, post strongly recommends that Department consider restoring Yemen's ESF funds to at least their FY05 levels. END SUMMARY

2. (C) Since 1999, when the USG made the strategic decision to re-start its development relationship with Yemen, the primary focus of our programming has been fighting terrorism. We began by devising a strategy to invest our resources in five underserved governorates where the central government's writ is weak, and where support for al-Qaida was strongest. Since then, USAID has spent more than USD 36 million in ESF funding alone in the five governorates, improving access to education and health care, and strengthening income generating agricultural activities. The results of our efforts have been both highly visible and effective. As one Marib sheikh told Ambassador in late 2004, "You promised that if we gave up kidnappings and supporting terrorism, you would build us hospitals. We upheld our end of the bargain and so did you."

3. (C) ESF support has been complemented by robust funding from USDA food assistance programs valued at more than USD 100 million since 1999. Embassy has used these funds, in coordination with the Yemeni Government, to build hospitals, health clinics, rural access roads, and more. Due to questions about the ROYG's handling of some of these funds, USDA programs for Yemen, valued at approximately USD 10 million, were not funded in FY05, and FY06 funds may be in jeopardy, pending the outcome of a working visit by a USDA compliance team.

4. (C) Yemeni reformers had hoped that their plans to re-structure the judiciary would receive a boost of up to USD 30 million this year through the MCA Threshold Program, but Yemen's participation in that initiative was suspended due to the ROYG's poor performance on a range of indicators. We are, with some success, using the suspension as leverage to push President Saleh into taking bold and aggressive steps to deal with some of Yemen's overriding problems, first and foremost of which is corruption, but Yemen cannot be reinstated and MCA funds made available until late 2006 at best.

5. (C) The primary reason why we have that leverage right now is due to President Saleh's productive meetings in Washington in early November. During his visit, Saleh heard from President Bush, the Secretary, and other senior officials about the critical importance of reducing corruption in Yemen and improving Yemen's poor governance indicators with the support and cooperation of the United States. Saleh appears to have taken the message to heart. Upon his return from Washington, he ordered his cabinet to develop a comprehensive reform plan, and directed the ruling party to formulate a reform platform in time for its December congress. While political will can go a long way toward pressuring Saleh to match his words with actions, many of these programs will need our financial resources to make them a sustainable reality.

6. (C) If only half of NEA's un-earmarked FY06 ESF funds are allocated to Yemen, as has been suggested, this will represent a 50 percent cut in USAID funding compared to FY05. Considering Yemen's economic crisis and the fact that 2006 is a presidential election year, we would allocate as many of those resources as possible to our core programs in democracy/governance and economic growth, to the detriment of

health and education projects. Even with such austerity measures, if no new funding is found by June 2006, contracts will need to be terminated, advisors demobilized, and projects ended across the board, including the democracy/governance dialogue. If that came to pass, the Yemeni people and government officials, especially the many reformers among them, would rightly think that we are walking away from Yemen just when the country needs us most.

17. (C) Yemen is the poorest country in the Middle East. Political instability in this country, fueled by an economic collapse, would create favorable conditions for the spread of extremist ideology. In the face of these challenges, Yemen is looking to make the right choices in a crucial period of transition. If reformers can manage to carry the day and implement necessary changes, Yemen has the potential to join the family of economically viable democratic nations. President Bush and senior Washington officials have opened a rare window of opportunity with President Saleh, and we must do all we can to take advantage of it.

18. (C) If the ROYG fails at or abandons its reform agenda, Yemen risks becoming a failed state, endangering its neighbors, fueling extremism, and attracting al-Qaida to make camp once again in Yemen, its oft-declared "third battleground." It is therefore important to U.S. national security that we remain committed to funding USAID programs through ESF funding at FY05 levels at the very least. Considering the costs involved in stabilizing Yemen if it becomes a failed state, the investments the USG is making in this country and its people now will prove infinitely less expensive in blood and treasure.

Krajeski